Dynamic Allocation Strategy

MAY 2021

Macro/Market Update

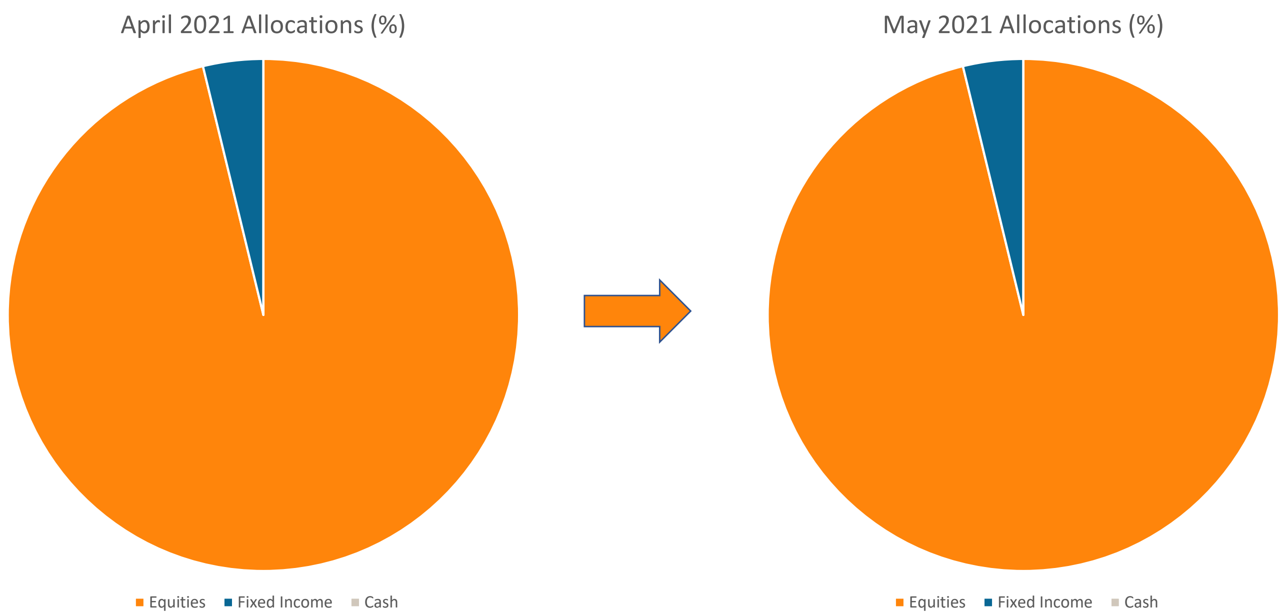
The global economy rose at significant pace at the end of the first quarter, according to the March reading for the global Purchasing Managers' Index (PMI) data. Vaccine rollouts gaining traction in various parts of the world, ongoing monetary and fiscal stimulus, and human resiliency and adaptability in the face of the virus have allowed the global economy to rebound even though the COVID pandemic has yet to subside.

The global composite PMI, which includes both the services and manufacturing sectors, jumped 1.6 points in March, the most in eight months, to 54.8, the highest level since August 2014. The latest reading of the composite is historically consistent with 4.2% annual real GDP growth. The manufacturing expansion continued to broaden, as the share of countries with growing manufacturing sectors rose to 86% in March, the highest since September 2018. The global services PMI increased for a second month, rising 1.9 points to 54.7, the highest level in over three years.

Rising demand coupled with higher commodity prices and supply-chain disruptions have created a perfect storm for a near-term jump in prices. Global input and output prices in both the manufacturing and services sectors are climbing at the fastest pace since at least 2009. Input costs continue to outpace the growth of output prices, indicating that businesses are absorbing some of the cost burden.

During April, the MSCI All Country World Index (ACWI) outperformed the Barclays Global Aggregate Bond Index by 315 basis points (bps). Stocks have outpaced bonds for eleven of the last thirteen months. Equity markets continue to anticipate the economic recovery fueled by excessive global liquidity, evident in the demand for commodities. Also, stocks are undeterred by rising bond yields, indicating that rising interest rates do not yet pose a threat to the economic outlook, and in turn the prospects for stronger earnings.

Asset Allocation Summary



* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

- The model equity allocation remains at more than 95%.
- The fixed income allocation continues to be under 5%.
- Cash has no weighting within the model.
- No indicators changed signals this month.
- The model did not trade as the turnover-reduction algorithm did not breach its threshold for rebalancing.
- All six top-level indicators favor equities over fixed income (table, below).

Top Level Factors

Indicator	Current Signal (Red = New Signal)	Comment
Equities/Fixed Income Relative Strength (indicator receives a heavier weighting)	Favors Equities	The relative strength ratio continues to be more than 17% above its one-year moving average, near the highest reading in the indicator's twenty-year history (chart at bottom).
Global Market Breadth	Favors Equities	70% of global equity markets are trading above their 50-day moving average.
OECD Leading Indicator	Favors Equities	The four-week change in the OECD Composite Leading Indicator (CLI) is still positive after hitting an all-time high last August.
PMI Breadth Factor	Favors Equities	The four-week change in economies with expanding manufacturing industries has reached its highest level since January. The PMI indicator's signals have whipsawed since last fall.
Baltic Exchange Dry Index	Favors Equities	At the end of April, the Baltic Dry Index was more than 48% above its 13-week moving average. It was the indicator's highest reading since last summer.
Central Bank Policy	Favors Equities	In order to favor fixed income, the global short-term rates indicator requires a significant drop in global short-term rates.

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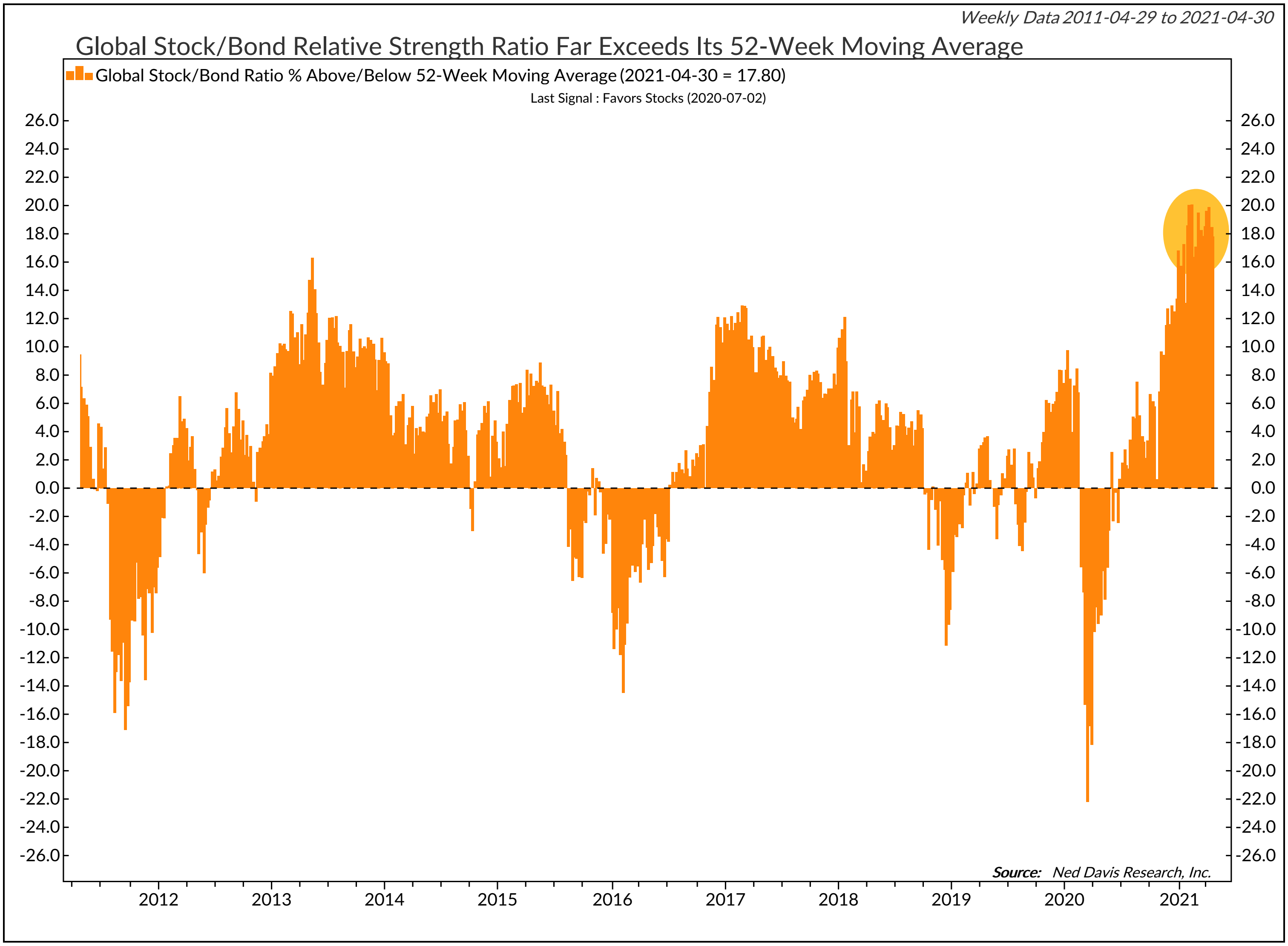

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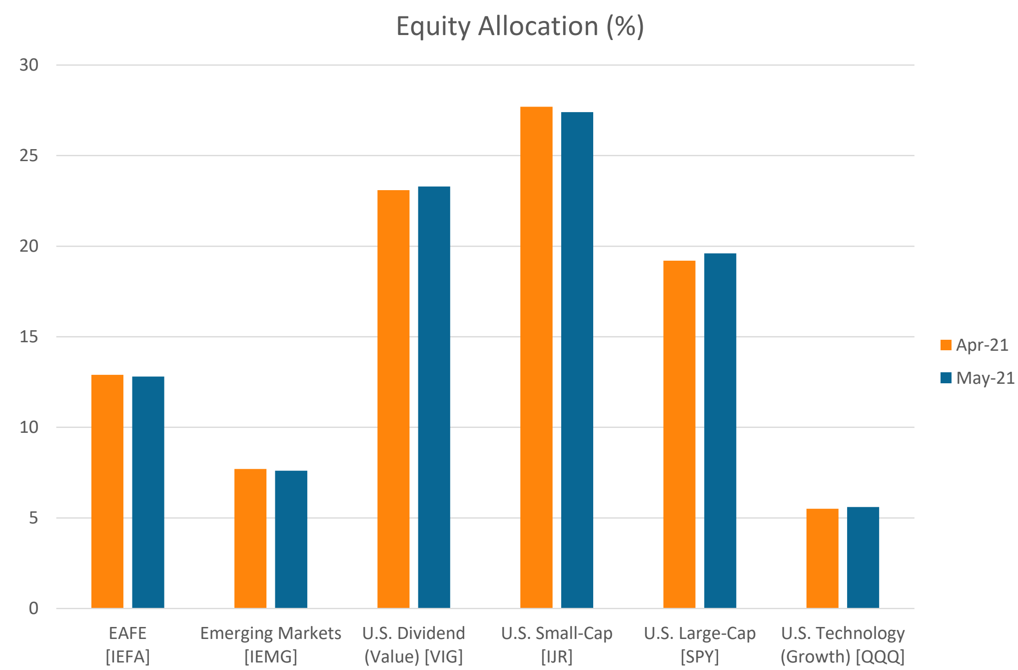
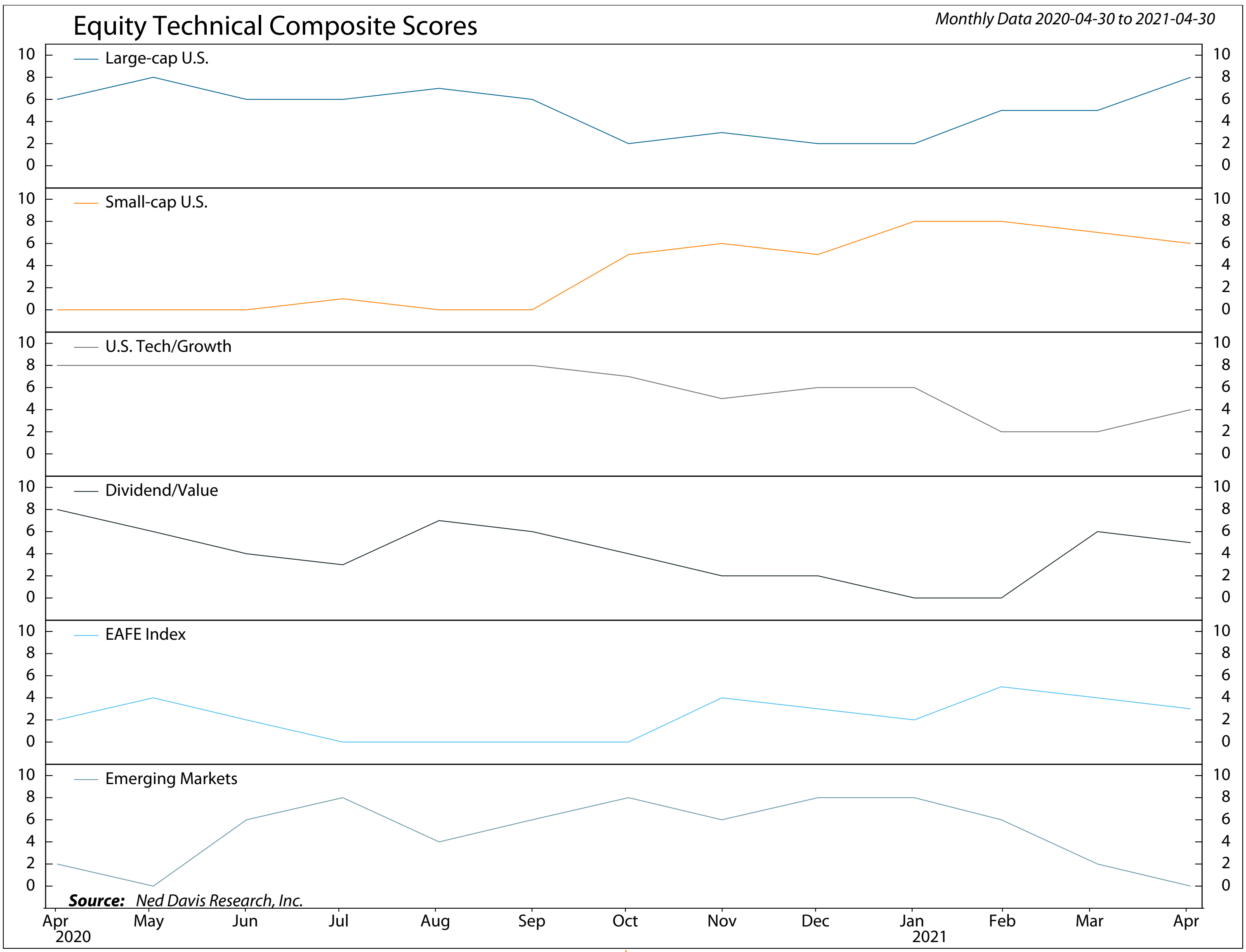
Equity Allocation Summary

During April, U.S. Value [Dividends] (VIG), U.S. Large Caps (SPY), and U.S. Growth [Technology] (QQQ) all gained more than 400 bps. It was the best month for QQQ and SPY since November. VIG and SPY each received greater than 19% allocation for May due to their elevated technical composite scores. Europe, Australasia, and the Far East [EAFE] (IEFA) and U.S. Small Caps (IJR) both increased by more than 185 bps last month. IJR has risen for seven consecutive months and received over 25% allocation. Although Emerging Markets (IEMG) gained more than 170 bps in April, it the second straight month where IEMG was the weakest area within equities. IEFA, QQQ, and IEMG each received more than 5% weighting.





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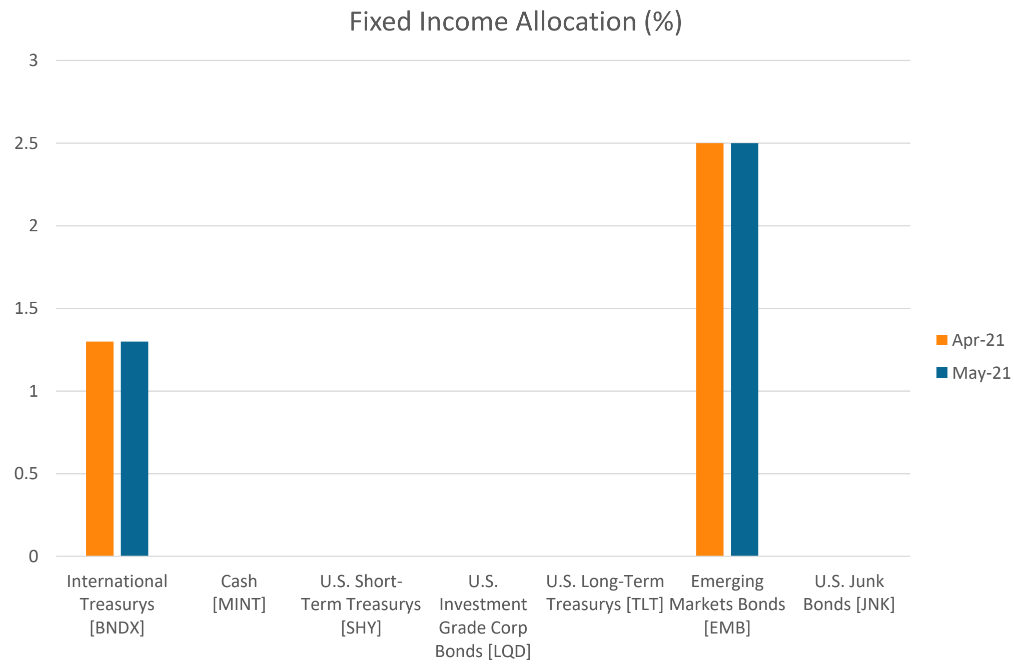
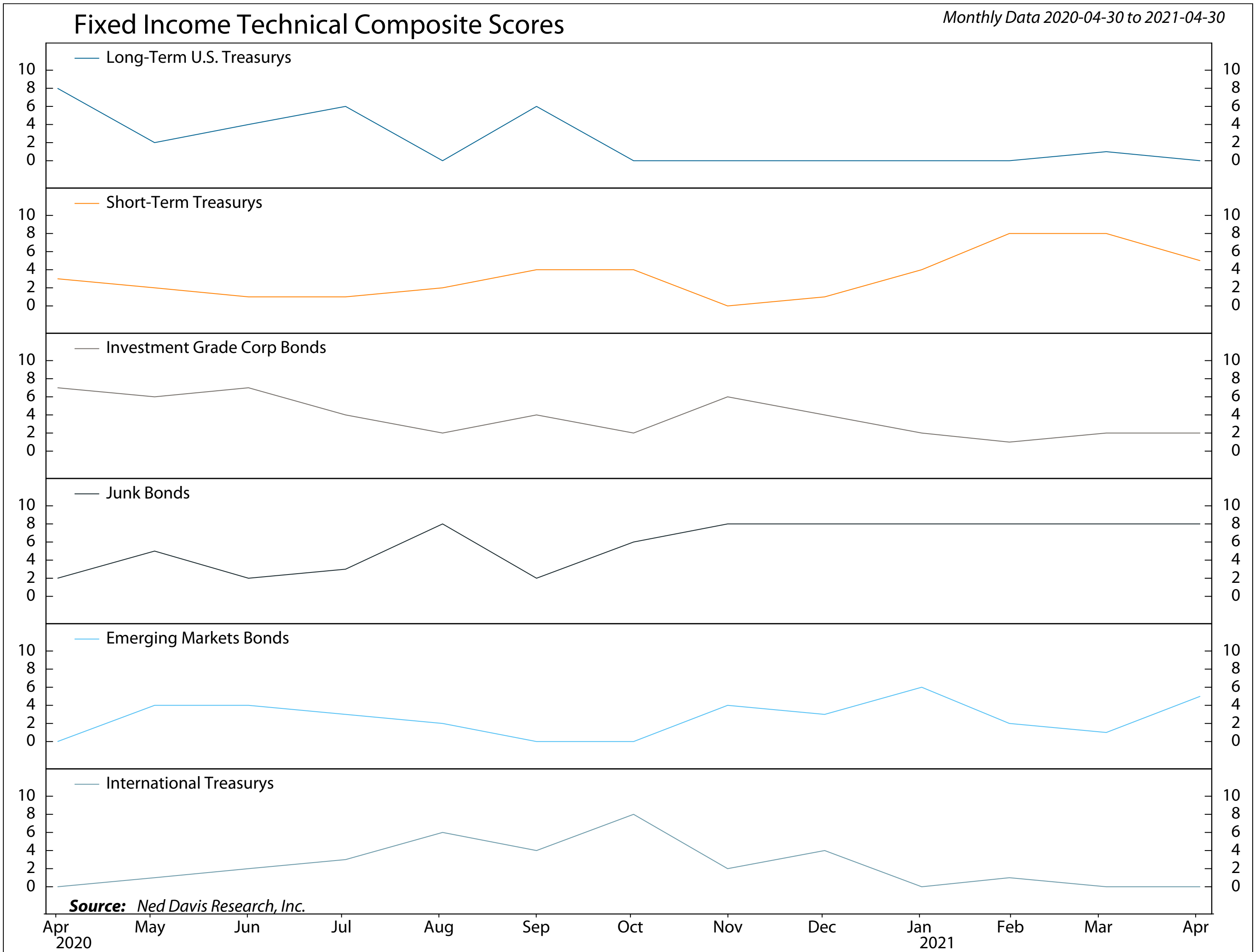
Fixed Income Allocation Summary

U.S. Long-Term Treasurys (TLT) and Emerging Market bonds (EMB) both jumped by at least 240 bps last month. It was the first positive monthly return for both areas since late 2020. U.S. High Yield (JNK) and U.S. Investment Grade (LQD) each rose by more than 70 bps in April. This broke a three-month losing streak for LQD, while JNK has risen for three consecutive months. U.S. Short-Term Treasurys (SHY) and Cash (MINT) each increased by over 5 bps last month. International Investment Grade Bonds (BNDX) was the only area to decline during April. Only EMB and BNDX received allocations as the model's turnover-reduction mechanism did not trade those areas.





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